



Kashf Foundation

“Financial Services for All”

Quarterly Report

July-September 2006

Kashf Foundation

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JULY-SEPTEMBER 2006: AT A GLANCE:

Total Outreach For Programme

	Apr-Jun '06	Jul-Sep '06
Outreach (Cum.)	90,326	106,932
# of Loans (GL) (Cum.)	287,246	322,589
# of Loans (EL) (Cum.)	200,552	221,119
# of Loans (BSL) (Cum.)	698	1,413
Total Loans (Cum.)	488,496	545,121
Savings (Cum.)	6,148,431	5,674,501
Saving per client (Rs.)	73	53
Attrition rate (%)¹	22%	18%

Source of Income Generation

Income from Financial Services	Apr-Jun '06	Jul-Sep '06	%age Change	Share (%)
Service Charge	69,955,719	87,265,274	24.7%	92.2%
Investments	7,862,252	5,046,692	(35.8%)	5.3%
Other Income	1,213,775	2,322,685	91.3%	2.5%
Total Income	79,031,746	94,634,651	19.7%	100

Portfolio Quality-Recovery & Risk Analysis

	Apr-Jun '06	Jul-Sep '06
Recovery %	100 %	100 %
PAR (%)	0.10 %	0.08 %
Overdue amount	792,305	785,639

Efficiency Ratios

Efficiency Ratios	FY-Jun '06	FY-Sep '06
Administrative Efficiency	18.96%	19.18%
Operational Efficiency	23.59%	24.04%
Operational Self sufficiency	164.60%	163.27%
Financial Self Sufficiency	114.11%	114.47%

Profitability Ratios

Profit Ratios	FY-Jun '06	FY-Sep '06
Return on Assets (Adj.)	3.03%	3.20%
Return on Equity (Adj.)	5.80%	6.34%
Yield on Portfolio	35.31 %	35.89%

KASHF – A DECADE OF DEDICATION

Kashf Foundation held its 10 year celebrations at Crystal Hall, Pearl Continental Hotel Lahore on 4th September 2006. The 10 year celebration ceremony was held to recognize the role Kashf has played in providing access to finance to over 250,000 poor families since its inception and to reflect on its role in expanding its network to reach out to over 2 million households in the future. Kashf has been internationally recognized for its pioneering role in microfinance in Pakistan and is a recipient of the prestigious AGFUND International Prize for Microcredit in 2005.

The panelists for the ceremony consisted of eminent dignitaries both from Pakistan and abroad, some of which included: Chief Guest Chaudhry Pervaiz Elahi, Chief Minister of Pakistan, Professor Muhammad Yunus, Managing Director, Grameen Bank Bangladesh, Dr. Ishrat Hussain, Chairman, National Commission of Government Reforms, Senator S. M. Zafar, Ms. Roshaneh Zafar, President Kashf Foundation, Steve Rasmussen, World Bank and Mr. Yusuf Samiullah, Head DFID Pakistan.

Professor Muhammad Yunus, founder and Managing Director of the Grameen Bank and a Nobel Laureate for his work in microfinance and poverty alleviation, praised Kashf's commitment to establishing high performance standards, sustainability and reaching out to women from low income communities. Chief Minister, Chaudhry Pervaiz Elahi said that the Government of Pakistan recognized the key role played by financial institutions such as Kashf Foundation in enhancing the social and economic impact of the financial sector in Pakistan. Mr. Steve Rasmussen stressed on the pioneering role played by Kashf in the microfinance sector by introducing innovative practices and products. Dr. Ishrat Hussain emphasized the need for growth and development of microfinance institutions which would help uplift Pakistan's economy and commended Kashf Foundation in its role as an effective provider of microfinance services. Senator S. M Zafar spoke about the success of the organization in raising its client base to a 100,000 by 2006, and praised Kashf for having a positive impact on the lives of poor households. Mr. Yusuf Samiullah said that the Kashf-DFID partnership and commitment to developing more inclusive financial markets has been successful in the past and will remain so in the future.

CHANGES THIS QUARTER:

We welcome 2 new directors, Dr. Ishrat Hussain and Ch. Shafiq to our fore. Dr. Ishrat Hussain has been nominated as the new chairman of the Board of Directors. We welcome these two gentlemen and wish them success in their future with Kashf.

Long term investment of 10 million in National saving certificate and Short term Investment of 48 million(10 million in SCB, 28 million in NIB and 10 million in FB) to increase revenue made from Investments.

New Districts for operations this quarter are Karachi and Khushab and 10 new branches have been opened during the July-September period (Okara 2, Hajveri Town, Old Civil Line, Jail Road, Mansora Abad, Bahlwal, Khushab, Sillanwali, Chichawatni and Jaranawala).

In Product Development, the IL product has been slightly modified and now the second loan cycle amount has been raised to Rs. 100,000. Planning of a Health Insurance product which shall provide medical services to the people of low income households at very nominal rates is in the offing. The feasibility of a Hepatitis C based loan is also being studied. Yaki Gate has been earmarked as the pilot branch due to the incidence of the disease in the area, however, further research is being done.

SUMMARY OF THE OUTCOMES

The programme surpassed 100,000 clients in the July-September Quarter. The disbursement of all loan products, i.e. **General Loan (GL)**, the **Emergency Loan (EL)** and **Business Surmaya Loan (BSL)** showed increases over the quarter and can be attributed to greater turn around time of repeat clients and reduction in the exit ratio. The impact of increasing the LO per branch from 4/5 to 5/6 in the last quarter has enabled the organization to expand its outreach. Cumulative amount saved, however, took a hit this quarter. Pilot phase of the **Home Improvement Loan (HIL)** is continuing in two of Kashf's branches: Ravi Rayon and Jorah Pull. Client's response to the product has been very encouraging and inclusion of another branch to the pilot phase is being contemplated over in order to gain diverse experience from the field before the rollout next year.

Better monitoring, tracking of client delinquency and dropout rates have helped in expanding and consolidating Kashf's client base. Recovery rate this quarter has been maintained at 100% while PAR further declined from 0.1% to 0.08%, due to strong portfolio management and better client screening procedures. Over this quarter, the organization has continued to concentrate curbing client attrition rate, propelling portfolio growth while maintaining portfolio quality, tailor making products based on the needs of its clients by offering them greater flexibility

PROGRAM PERFORMANCE DURING APRIL - JUNE

Total Outreach of the Programme

Outreach	Apr-Jun	Jul	Aug	Sept	Jul-Sept
Outreach (cumulative)	90,326	95,217	101,458	106,932	106,932
Customers (drop out)	2,570	753	726	1,090	2,569
Customers attrition rate (%)	22%	17%	10%	14%	18%

Disbursement – General Loan

The table to the right illustrates the trends in GL disbursement over the last two quarters. The total amount of loans disbursed in the quarter July-September 2006 has increased by approx. 17%, while the number of loans disbursed registered a raise of 12.3% vis-à-vis the previous quarter.

Disbursement-General Loan					
April-June 2006	Jul	Aug	Sept	Jul-Sep	
Loan Amount Disbursed	3,349,107,166 (cumulative)	137,352,000	199,144,000	218,059,000	3,903,662,166
Number of Loans	287,246 (cumulative)	9,144	12,616	13,583	322,589
Average Loan Size (Rs.)	11,659 (cumulative)	11,763	11,927	12,101	12,101

These statistics indicate an increase in GL disbursement; and can be explained by the increase in the Average Loan Size, rising 3.8% compared to April to June 2006. This can be attributed partly to the maturity of branches which has led to bigger loan sizes for the clients. Furthermore, since branches are being monitored on a monthly basis, target achievement is now being taken care of with due diligence.

Disbursement – Emergency Loan

Disbursement-Emergency Loan					
	Apr-Jun 06	Jul	Aug	Sept	Jul-Sep
Loan Amount Disbursed (Rs.)	519,227,669 (cumulative)	24,772,000	26,573,000	25,613,000	596,185,669
Number of Loans	200,552 (cumulative)	6,673	7,024	6,870	221,119
Average Loan Size (Rs.)	2,589 (cumulative)	2,625	2,663	2,696	2,696

The average loan size has showed a modest increase when compared with the previous Quarter. The loan amount disbursed increased by 14% in the Quarter July-September 2006. In other words, the growth in disbursement of the EL has been sustained over this period. The availability of this loan twice a year to a client has increased its demand. The particular value of the emergency loan is that it is “women friendly” product and enables the clients to access ready cash in the case of any small family emergency. Informal evidence has shown that the EL is often used to pay school fees or meet basic health care expenditures.

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Disbursement – Business Surmaya Loan

Disbursement-Business Surmaya Loan					
	April-June	Jul	Aug	Sept	Jul-Sept
Loan Amount Disbursed (Rs.)	27,130,000 (cumulative)	5,700,000	9,075,000	13,630,000	53,285,000
Number of Loans	698 (cumulative)	159	225	331	1,413
Average Loan Size (Rs.)	38,868 (cumulative)	35,849	40,333	41,178	37,711

BSL/IL disbursement over the last two quarters is summarized in the table to the left. The total amount of loans disbursed in the current quarter has registered a rise while that of the number of loans granted have also aggravated. Increasing the second Loan cycle amount has led to not only the increase in loan amount disbursed but also in the number of loans due the attractiveness of the product.

BSL/IL disbursement over the last two quarters is summarized in the table to the left. The total amount of loans disbursed in the current quarter has registered a rise while that of the number of loans granted have also aggravated. Increasing the second Loan cycle amount has led to not only the increase in loan amount disbursed but also in the number of loans due the attractiveness of the product.

Savings

Savings					
	Apr-June	Jul	Aug	Sept	Jul-Sept
Savings (cumulative)	6,148,431	6,148,431	5,674,501	5,674,501	5,674,501
Outreach (cumulative)	90,326	95,217	101,458	106,932	106,932
Saving per client (Rs.)	68	65	56	53	53

The savings product has shown a downward trend this quarter as well. In this quarter, the total amount saved decreased by 7.7%, and the average savings per client further declined coming down to Rs 52 for the quarter. Although the savings have declined, clients have also increased and due to the voluntary nature of our savings product, savings/client has declined. However, focus needs to be given to improving our savings product shall come

FINANCIAL SUSTAINABILITY

Overall performance

The period under review experienced high growth strategy, opening of 8 new branches inclusive of 1 BSL branch, a continuation of the pilot test on the Home improvement Loan which has disbursed 81 loans till the quarter end.

The organization's equity stood at Rs 692 M [June 2006: Rs 656 M]. The growth of Rs. 36M in equity resulted from higher net income earned by Kashf. The income from loans increased to Rs. 87M from Rs 69 M for the quarter ended Sep, 2006. Personnel cost increased by 12% to Rs. 28.64 Million [Quarter ended Sep 2006: 25.63 M]. The major variation in personnel cost is due to hiring of staff for new branches. Number of total staff has increased to 700 [Quarter ended June 2006: 553]. The administrative costs increased by 34% to Rs. 4.51M over the quarter. The major increase is due to setup cost of new branches, Kashf Documentary Film and 10 year celebrations ceremony.

Source of Income Generation				
Income from Financial Services	Apr-Jun '06	Jul-Sep '06	%age Change	Share (%)
Service Charge	69,955,719	87,265,274	24.7%	92.2%
Investments	7,862,252	5,046,692	(35.8%)	5.3%
Other Income	1,213,775	2,322,685	91.3%	2.5%
Total Income	79,031,746	94,634,651	19.7%	100

Compared to the last quarter, income rose from 69 million to 87 million registering an increase of 24.7%. Percentage share of income generated over the quarter resulted from 92.2% income generation in service charges, 5.3% from investment income and 2.5% from other sources. The respective indicators for the previous quarter were 88.5%, 9.9% and 1.53%.

This quarter the share of income generated from service charges has increased and the share of income from investments has decreased. The income from other sources has also increased.

Profitability Ratios

Profitability Ratios		
Profit Ratios	FY-Jun '06	FY-Sep '06
Return on Assets (Adj.)	3.03%	3.20%
Return on Equity (Adj.)	5.80%	6.34%
Yield on Portfolio	35.31 %	35.89%

The return on assets ratio rose slightly from 3.03% last quarter to 3.20% this quarter, while the return on equity ratio jumped from 5.80% to 6.34%. Yield on portfolio also increased slightly from 35.31% last quarter to 35.89% showing a positive trend as opposed to the negative trend last quarter. .

Efficiency Ratios

Efficiency Ratios		
Efficiency Ratios	FY-Jun '06	FY-Sep '06
Administrative Efficiency	18.96%	19.18%
Operational Efficiency	23.59%	24.04%
Operational Self sufficiency	164.60%	163.27%
Financial Self Sufficiency	114.11%	114.47%

The above table illustrates the trend of administrative efficiency, operational efficiency, operational self sufficiency and financial self sufficiency over successive quarters from March – September 2006.

Administrative efficiency, defined as the cost required in maintaining Rs 1 in the market increased from 18.96% last quarter to 19.18% this quarter. Operational efficiency highlights the efficiency of the loan disbursement system and has slightly increased from 23.59% last quarter to 24.04% this quarter.

Operational self-sufficiency measures whether the revenue generated by the program is sufficient to cover its overheads and financial self-sufficiency estimates whether the program would still be sustainable if it is compelled to borrow at market rates. Operational self-sufficiency somewhat remained steady since last quarter dropping only from 164.60% to 163.27%. Financial self-sufficiency increased slightly from 114.11% last quarter to 114.47% this quarter.

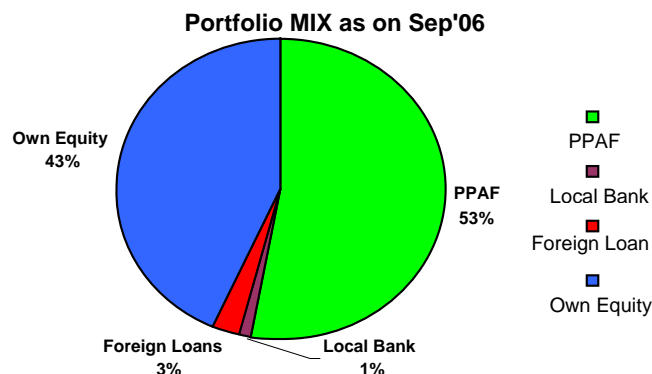
Operational performance

The sustainability ratios show a slight decreased trend as compared to the previous quarter, OSS stood at 164% [June 2006 165%] due to opening of 8 more [June 2006: 11] new branches in the quarter. Income on loans has shown increase of over 25% as compared to previous quarter however 1% less when we compared with targeted income.

The operating efficiency ratio has gone up by 2% as compared to previous quarter; this variation is due to additional costs of 8 new branches. As on Sep'06 there were 54 productive branches out of 62.

Financing Sources

Source	Limit	Interest rate	Loan proceeds	Outstanding as on Sep 30,2006- Rupees in millions
PPAF	1.350M	6-8%	279.66M	536.83
* MCB	300M	10%	RF	9.3
Grameen	21.19M	2%	NIL	21.19
Acumen	8.9 M	6%	NIL	8.9
Total				576.22



We accessed funds from PPAF as the market rates are higher than PPAF. Among all the loans agreements that Kashf has only the arrangement with MCB exposes us to interest rate risk. All other agreements neither carry interest rate or currency risk.

HUMAN RESOURCES

	Apr-Jun, 2006		Jul-Sep, 2006	
Total Permanent Staff	475		591	
Total Staff (HO Field)	69	406	69	522
Gender Ratio	Male	Female	Male	Female
	59%	41%	61%	39%
Total Trainee Staff	156		136	
Total Trainees (HO Field)	3	153	5	131
Trainees Gender Ratio	Male	Female	Male	Female
	72%	28%	62%	38%
Total Staff Recruited	168		134	
Staff Recruited (HO Field)	6	162	7	127
Gender Ratio	Male	Female	Male	Female
	70%	30%	61%	39%
Turn Over (Quarterly)	Voluntary	Involuntary	Voluntary	Involuntary
	100%	0%	88%	12%
Overall Turn Over	3%		3%	

This quarter bulk hiring took place which had not been seen hitherto in earlier quarters. The employee pool, increased by nearly 29% this quarter taking total staff count to 522. Trainings of female staff also increased this quarter. Our intended goal is to increase female trainings to 75%, so this quarter was a step in the right direction.

S #	Objective of Training	Trainer/Institution
1	Development Course for Managers	PIM
2	F&A Management for non-Financial Managers	SDPI
3	Essential Skills For Field Ops/Appraisal Techniques	Sind MFN
4	Individual Lending for Micro & Small Businesses	PMN
5	TOT	British Council
6	HR Management	MDI
7	SME Lenders' Training	PMN
8	Interpersonal Communication	NAVITUS
9	Database Administration	Oracle University
10	Personal Effectiveness Tools	Abbas Husain

The number of in-house trainers has been increased (provide separate trainings for BMs/LOs) from 2 to 4 and space acquired for a learning center to be equipped with modern facilities, enabling us to meet the need for staff development as Kashf rapidly expands. In-house trainers shall be conducting frequent orientations, trainings and policy refreshers for new and existing staff.

A list of external trainings taken by our staff is given in the left column. We focus on staff retention through trainings and internal promotions

GENDER EMPOWERMENT & SOCIAL ADVOCACY (GESA)

GESA, an initiative taken by our organization that focuses on creating awareness about social issues and empowering women has become a department over the years. Following are the list of activities undertaken by GESA during the quarter and what was achieved.

Initiatives	Out comes
Gender Client Council	<p>The Gender Client Council is envisioned as a council comprising of Kashf clients and non-clients with regular meetings to debate issues related to gender, environment, and community development. The idea is for the council to act as a catalyst for communities to analyse their problems, come up with solutions and to initiate relevant actions. The role of Kashf is to facilitate this process.</p> <p>These GCC conduct monthly meetings and its methodology is as under:</p> <ul style="list-style-type: none"> ➤ initial field visit ➤ orientation council meeting ➤ explain concept ➤ talk about main problems ➤ prioritize problems ➤ main problem to work on ➤ work-plan ➤ assign responsibilities <p>During this quarter, monthly meetings were conducted for two old client councils, furthermore, process initiated for the establishment of 2 new councils in Baghbanpura and Qainchi branch. After the establishment, the councils in Qainchi raised issue of health and it is in the resolution process in collaboration with NGOs focusing on health provision. A new water and sanitation project has been initiated in Baghbanpura with the connivance of Interactive Resource Center.</p>
Kashf's orientation for Councilors	<p>Councilors at the Union Council level are one of the important stakeholders in terms of Kashf's operations. This initiative aims to ensure that: councilors are aware of Kashf's mission and operations; that they have some knowledge of microfinance within its larger context; and are aware of the different ways in which they could facilitate Kashf's operations and staff security</p>
Media/ Networking	<p>The core objective of this program is to build Kashf's image as a socially responsible MFI and develop linkages with other stakeholders. This includes dispensing information about the organization within the media and interfacing with different channels about Kashf's role in the past, present and future. Furthermore, rapport and public relationing is also undertaken by this cell.</p>
Theater	<p>A strong awareness-raising medium and is the most promising and dynamic initiative undertaken by GESA. The content of the performances is carefully planned and monitored by GESA. 3-4 themes have been developed and are being performed in communities. We focus on clients' perspectives while developing these themes. During this Quarter, 25 performances have been conducted in area 1, 2 & 3 and awareness generated on Hadood Ordinance, Gender Discrimination and Harassment amongst 4000 clients. Impact assessment study is going on gauge the impact of the program, 6 focus groups were conducted in area 1 and 6 to fulfill the purpose.</p> <p>Our overall strategy is to establish area based theater groups to conduct area-based performances on societal issues to raise awareness amongst Kashf's clients.</p>

Leadership Training	<p>This training is targeted at Kashf's Centre Managers. The module has been designed to enhance their leadership qualities and based on questions such as:</p> <ul style="list-style-type: none"> what are CM leadership needs what leadership skills can be developed in one session how to design follow-up sessions
Social themes	<p>The Social theme package consists of 24 themes. It is a much more interactive package than the previous booklet. Monitoring is on going part of regular operations. Only spot monitoring is conducted by GESA. In addition to training LOs, there will also be an attempt to develop strong incentives for LOs to maintain a high standard of quality when delivering social themes.</p>
Gender and Development workshops	<p>The empowerment vision of Kashf and GESA's mandate both make it imperative that high-quality gender sensitization training be carried out for all Kashf staff. During this quarter, 2 gender sensitization workshops were conducted for the new loan officers.</p> <p>In order to keep up with staff expansion, GESA will also invest resources in building a cadre of in-house, high quality trainers</p>